

Nashua, New Hampshire

General Obligation Bonds New Issue Report

Ratings

New Issue

General Obligation Bonds,
Series 2013 AAA

Outstanding Debt

General Obligation Bonds,
Series 1999 AAA

General Obligation Capital
Improvement Bonds, Series 2010 AAA

General Obligation Capital
Improvement Bonds, Series 2011 AAA

General Obligation Refunding Bonds,
Series 2012 AAA

General Obligation Pennichuck
Acquisition Bonds AAA

Rating Outlook

Stable

New Issue Details

Sale Information: \$21,205,000 General Obligation Bonds, Series 2013, to sell competitively the week of April 8.

Security: Unlimited tax GO.

Purpose: Capital improvements within Nashua.

Final Maturity: April 1, 2033.

Key Rating Drivers

Strong Financial Management: Nashua's management team has made appropriate spending cuts to adequately address rising employee costs and maintain strong fund balances in the context of voter-approved spending limitations.

Diverse and Expanding Economic Base: The city's economy continues to see growth and development and is a key center within the state for business and government.

Above-Average Socioeconomic Factors: The local economy is diverse, with good wealth indicators and below-average unemployment rates.

Manageable Debt Burden: The city's debt burden including the series 2012 Pennichuck acquisition bonds is moderate to high but taking into account the self-supporting nature of the Pennichuck acquisition bonds and state grants for school debt, debt levels are low. Par amortization is rapid.

Rating Sensitivities

Continued Strong Financial Position: The rating is sensitive to shifts in fundamental credit characteristics, including the city's strong financial management practices, which Fitch believes are unlikely.

Related Research

[Nashua, New Hampshire, March 2012](#)

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Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/22/13
AAA	Affirmed	Stable	3/9/12
AAA	Affirmed	Stable	1/6/12
AAA	Affirmed	Stable	10/18/11
AAA	Affirmed	Stable	7/22/10
AAA	Upgraded	Stable	6/10/10
AA+	Revised ^a	Stable	4/30/10
AA	Affirmed	Stable	1/31/08
AA	Affirmed	Stable	1/29/04
AA	Affirmed	—	5/23/00
AA	Affirmed	—	6/11/99
AA	Affirmed	Negative	4/8/99
AA	Assigned	—	1/20/99

^aReflects rating recalibration.

Credit Profile

The city is located on the southern border of the state of New Hampshire, 34 miles northwest of Boston.

Above-Average Socioeconomic Factors

The local economy serves as a regional retail hub with two very large shopping malls, providing tax-free shopping for New Englanders. The city has emerged as a regional center for medical services and is home to a diverse group of international companies including Oracle, Dell, Fidelity Investments, and BAE Systems. The city has two industrial parks and is experiencing continued new development.

The city's demographics are generally positive, with wealth levels exceeding both state and national averages. Unemployment levels increased modestly to 6.1% as of December 2012 from 5.7% a year prior. The city's population of 86,704 has remained relatively flat since 2000. The city's 2009 revaluation resulted in a 10% decline in assessed value (AV) for fiscal 2010. The current revaluation, effective fiscal 2014, could show additional declines, although new development has been occurring in the city.

A decline in AV does not affect the city's ability to raise its tax rate, but there is a cap on the city's total appropriations. Annual appropriations cannot exceed the three-year average of the Northeast Region CPI percentage over the previous year's budget, in accordance with the voter-approved Budget Control Charter Amendment passed in 1993. An exemption of this appropriation limit is permitted for all capital expenditures and bonded debt with a two-thirds vote from the city's board of aldermen. Top 10 taxpayers represent a modest 8% of AV.

Strong Financial Management

The city has managed recent revenue declines and rising employee costs through moderate annual tax levy increases, prudent cost-cutting measures and achievement of successful negotiations with certain of its bargaining units. Property taxes, which represented 73.0% of fiscal 2012 general fund revenues, have been increased responsibly, and were below the budget cap which was 2.2%, 2.0%, and 1.7% of the prior year's levy in fiscal years 2011, 2012, and 2013, respectively.

The city's fiscal 2012 budget increased by only 1.7% over 2011, in large part due to a 3.0% decrease in all departmental operating budgets (excluding school and technology). The \$227 million budget was under the spending cap by \$978,669. Notable expenditure increases were incurred for pensions (up 20%), due mostly to the state's elimination of the employer contribution subsidy and increasing employee healthcare costs. The city has worked with its insurance carriers to reduce premiums and successfully negotiated healthcare and salary concessions with the bulk of its workforce.

Fiscal 2012 results were positive ending with a \$3.7 million (1.6% of spending) net operating surplus after transfers. A combination of better revenues across many areas and lower departmental costs due to conservative budgeting contributed to the surplus. The city's unrestricted fund balance rose to \$49 million, or a strong 21% of general fund spending.

Fiscal 2013 budgeted appropriation growth remained under the 1.7% budget cap by \$476,984. Management reports that expenditures are tracking to budget or slightly better and due to more conservative estimates on certain revenue items, the city plans to use approximately \$4.3 million of appropriated fund balance, which has been historically appropriated to offset tax increases. Fitch considers this projection reasonable based on management's history of

Related Criteria

U.S. Local Government Tax-Supported
Rating Criteria (August 2012)

Tax-Supported Rating Criteria
(August 2012)

prudent and conservative budgeting practices. The city prudently continues to include in its operating budget contributions to its capital reserve funds to support equipment and fleet replacements and other city and school improvements.

The city's fiscal 2014 budget is in preliminary stages but officials have indicated that the city's budget cap is 2.3%. Management has indicated to Fitch it intends to stay within this cap and will not seek an override. To help achieve this budget, city department heads and the school district have been asked to cap expenditure growth at 1%, and another moderate property tax increase will likely be proposed.

A major budget accelerator is the biannual pension contribution rate for the state system, which has been adjusted for fiscal 2014. The city's new contribution rate results in an increase of approximately 26% over fiscal 2013. Employee salary costs will rise moderately along with health insurance costs, but health costs are being controlled through plan changes and increased employee contribution rates recently implemented.

Debt Levels Low and Pension Costs Manageable

The city's debt ratios (net of estimated state school grant reimbursements and payments from Pennichuck Corporation, the city owned water company), remain low at 1.6% of fiscal 2011 state equalized AV and \$1,560 per capita. Amortization is above average, with 85% of GO debt (excluding self-supporting sewer-related and Pennichuck acquisition debt) retired in 10 years. Fiscal 2013 budgeted general fund debt service of \$17.8 million was 7.7% of the general fund budget.

Debt Statistics

(\$000)	
This Issue	21,205
Outstanding Direct Debt	328,236
Self-Supporting	(192,966)
Total Overall Debt	135,270
Debt Ratios (%)	
Net Direct Debt Per Capita (\$) ^a	1,560
As % of Market Value ^b	1.6
Overall Debt Per Capita (\$) ^a	1,560
As % of Market Value ^b	1.6

^aPopulation: 86,704 (2012). ^bMarket value: \$8,519,356,326 (2012).
Note: Numbers may not add due to rounding.

The city's planned issuance of up to \$50 million over fiscal years 2014 and 2015 is quite manageable, given rapid amortization of general fund debt.

The city's nonpublic works employees participate in the state's pension system. As a result of the state's elimination of its pension cost sharing arrangement in fiscal 2012 (compared to 25% state funding in 2011), the city's contribution increased 25% in fiscal 2012 from a year prior. Public works employees participate in a city-managed single employer system, and the city continues to pay the annual required contribution in full. The city's plan is 81% funded, and the unfunded liability was low at \$7.6 million as of July 1, 2011.

The city contributed 40% of the fiscal 2012 required other post-employment benefit (OPEB) payment. Carrying costs for debt service, pensions, and OPEB pay-go are manageable at 13.6% of governmental fund (less capital) spending.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2008	2009	2010	2011	2012
Property Tax Revenue	157,459	160,672	162,778	168,867	174,264
Other Tax Revenue	1,007	886	929	962	972
Total Tax Revenue	158,466	161,558	163,707	169,829	175,236
License and Permits	12,312	11,558	11,312	11,200	11,805
Charges for Services	1,720	1,865	1,975	1,832	2,114
Intergovernmental Revenue	45,429	47,304	49,622	48,876	46,453
Other Revenue	5,154	3,755	1,990	1,487	2,288
General Fund Revenue	223,081	226,040	228,606	233,224	237,896
General Government	53,818	52,805	54,075	56,898	58,422
Public Safety	32,246	36,457	35,707	37,840	34,515
Public Works	8,465	9,147	9,685	9,372	9,232
Health and Social Services	2,188	2,438	1,967	1,894	1,674
Culture and Recreation	4,771	5,384	5,034	5,311	5,088
Educational	84,965	93,517	91,669	93,588	93,476
Debt Service	19,055	18,441	18,013	17,281	17,401
Other	11,055	11,244	11,115	11,152	11,393
General Fund Expenditures	216,563	229,433	227,265	233,336	231,201
General Fund Operating Surplus/(Deficit)	6,518	(3,393)	1,341	(112)	6,695
Transfers In	3,501	8,260	5,447	2,001	1,228
Other Sources	108	0	0	0	0
Transfers Out	6,638	4,788	6,867	6,301	4,232
Net Transfers and Other	(3,029)	3,472	(1,420)	(4,300)	(3,004)
Net Surplus/(Deficit)	3,489	79	(79)	(4,412)	3,691
Total Fund Balance	38,334	38,413	49,980	45,568	49,259
As % of Expenditures, Transfers Out, and Other Uses	17.2	16.4	21.3	19.0	20.9
Unreserved Fund Balance	33,294	33,250	—	—	—
As % of Expenditures, Transfers Out, and Other Uses	14.9	14.2	—	—	—
Unrestricted Fund Balance ^a	—	—	49,796	45,342	49,033
As % of Expenditures, Transfers Out, and Other Uses	—	—	21.3	18.9	20.8

^aReflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

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